

POCAHONTAS COMMUNITY HOSPITAL

INDEPENDENT AUDITOR'S REPORT  
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2010 AND 2009

POCAHONTAS COMMUNITY HOSPITAL  
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POCAHONTAS COMMUNITY HOSPITAL  
Officials  
June 30, 2010

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
CITY COUNCIL		
Brian Blomker	Mayor	December, 2011
Gus Holzmueller	Member	December, 2011
Brian Stover	Member	December, 2011
John DeWall	Member	December, 2013
Jeff Nielsen	Member	December, 2011
Rod Stoulil	Member	December, 2013
Jeffrey A. Johnson	City Treasurer	Appointed Annually

HOSPITAL BOARD OF TRUSTEES

Rick Winegarden	President	December, 2011
Bev Holzmueller	Vice-President	December, 2013
Duane Wiemers	Secretary-Treasurer	December, 2013
Don Beneke	Member	December, 2011
Cheryl Smith	Member	December, 2011

HOSPITAL OFFICIALS

James Roetman	Chief Executive Officer
Lynne Raveling	Chief Financial Officer
Erin Peterson	Director of Patient Care
Susie Aden	Director of Outpatient Services

# Gronewold, Bell, Kyhnn & Co. P.C.

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CHRISTOPHER J. NELSON  
DAVID A. GINTHER

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Pocahontas Community Hospital  
Pocahontas, Iowa

We have audited the accompanying consolidated balance sheets of Pocahontas Community Hospital as of June 30, 2010 and 2009, and the related consolidated statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pocahontas Community Hospital as of June 30, 2010 and 2009, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

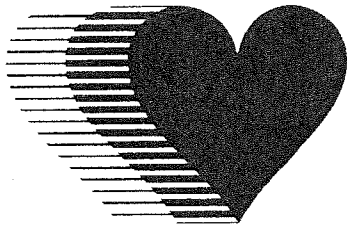
In accordance with Government Auditing Standards, we have also issued our report dated August 13, 2010 on our consideration of Pocahontas Community Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 4d and the budgetary comparison schedule on page 19 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the Board of Trustees  
Pocahontas Community Hospital

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2008 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information (shown on pages 20 through 32) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Gronewald, Bell, Kuhlman + Co. P.C.*  
Atlantic, Iowa  
August 13, 2010



# Pocahontas Community Hospital

## Pocahontas Community Hospital Management's Discussion and Analysis

Our discussion and analysis of Pocahontas Community Hospital's (Hospital) financial performance provides an overview of the Hospital's and Pocahontas Community Healthcare Foundation's (a blended component unit) financial activity for the fiscal years ended June 30, 2010, 2009, and 2008. Please read it in conjunction with the Hospital's financial statements.

### FINANCIAL HIGHLIGHTS

The Hospital's net assets increased in each of the past two years with a \$434,321 or 6.0% increase in 2010 and a \$213,878 or 3.0% increase in 2009.

The Hospital reported operating income of \$243,905 in 2010 and an operating income of \$86,166 in 2009.

Nonoperating revenues, net decreased by \$17,672 in 2010 as a result of an approximate \$21,204 decrease in gifts and grants. The nonoperating revenues, net increased by \$46,405 or 69% in 2009.

### USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements - a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

### THE BALANCE SHEET AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Hospital's resources and its activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's net assets - the difference between assets and liabilities - are one way to measure the Hospital's financial health, or financial position. Other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors need to be considered in assessing the overall health of the Hospital.

### THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities.

Pocahontas Community Hospital  
Management's Discussion and Analysis - Continued

THE HOSPITAL'S NET ASSETS

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 5 as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets:			
Current assets	\$ 3,476,499	\$ 2,164,133	\$ 1,960,855
Capital assets, net	6,236,041	6,355,746	6,843,888
Other assets, net	<u>567,908</u>	<u>736,581</u>	<u>591,982</u>
Total assets	<u>\$ 10,280,448</u>	<u>\$ 9,256,460</u>	<u>\$ 9,396,725</u>
Liabilities:			
Long-term debt, less current maturities	\$ 849,489	\$ 1,197,903	\$ 1,532,723
Other current and noncurrent liabilities	<u>1,711,728</u>	<u>773,647</u>	<u>792,970</u>
Total liabilities	<u>\$ 2,561,217</u>	<u>\$ 1,971,550</u>	<u>\$ 2,325,693</u>
Net Assets:			
Invested in capital assets	\$ 4,799,889	\$ 4,824,022	\$ 4,991,909
Restricted expendable assets	93,588	93,336	96,276
Unrestricted	<u>2,825,754</u>	<u>2,367,552</u>	<u>1,982,847</u>
Total net assets	<u>\$ 7,719,231</u>	<u>\$ 7,284,910</u>	<u>\$ 7,071,032</u>

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2010, the Hospital's net assets increased by \$434,321 or 6.0%, as shown in Table 2. This compares with the 3.0% increase in net assets of \$213,878 for 2009.

Net patient service revenue increased \$584,604 or 8.1% in 2010 (\$673,209 or 10.3% in 2009).

Pocahontas Community Hospital  
Management's Discussion and Analysis - Continued

Table 2: Operating Results and Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating Revenues:			
Net patient service revenues	\$ 7,779,141	\$ 7,194,537	\$ 6,521,328
Other operating revenues	<u>95,066</u>	<u>84,079</u>	<u>91,171</u>
Total operating revenues	7,874,207	7,278,616	6,612,499
Operating Expenses:			
Nursing service	2,130,552	1,988,971	1,754,784
Other professional service	2,632,910	2,513,170	2,342,341
General Service	623,384	597,687	572,877
Fiscal and administrative service	1,629,939	1,462,316	1,302,640
Provision for depreciation	<u>613,517</u>	<u>630,306</u>	<u>689,941</u>
Total operating expenses	7,630,302	7,192,450	6,662,583
Operating income (loss)	243,905	86,166	( 50,084)
Nonoperating Revenues and Expenses:			
Noncapital gifts, grants and bequests	142,394	163,598	108,444
Investment income	23,390	31,371	52,556
Ambulance subsidy	6,745	6,274	5,600
Interest expense	( 71,316)	( 87,687)	( 93,690)
Clinic operations, net	( 429)	( 300)	( 420)
Loss on disposal of equipment	<u>( 5,200)</u>	<u>--</u>	<u>( 5,639)</u>
Non-operating revenues, net	95,584	113,256	66,851
Excess of Revenues Over Expenses			
Before Capital Grants and Contributions	339,489	199,422	16,767
Capital Grants and Contributions	<u>94,832</u>	<u>14,456</u>	<u>25,606</u>
Increase in Net Assets	434,321	213,878	42,373
Net Assets Beginning of Year	<u>7,284,910</u>	<u>7,071,032</u>	<u>7,028,659</u>
Net Assets End of Year	<u>\$ 7,719,231</u>	<u>\$ 7,284,910</u>	<u>\$ 7,071,032</u>



Pocahontas Community Hospital  
Management's Discussion and Analysis - Continued

## OPERATING INCOME

The first component of the overall change in the Hospital's net assets is its operating income, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. Operating income increased from an income of \$86,166 in 2009 to income of \$243,905 in 2010.

The primary components of this increase in operating incomes are:

The increase in patient volumes resulting in a 10.5% increase in patient service revenue. Patient service revenue was \$10,017,431 in 2010 compared to \$9,064,262 in 2009.

## NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of contributions, interest revenue and investment earnings and a county subsidy for providing ambulance services. Interest revenue decreased from \$31,371 in 2009 to \$23,390 in 2010. This decrease is the result of declining interest rates received on investments over the past year.

## GRANTS AND CONTRIBUTIONS

The Hospital received \$93,473 in grant funds through the SHIP, FLEX and HRSA grant programs in 2010.

The Pocahontas Community Hospital Healthcare Foundation was formed for the purpose of raising funds for the benefit of the Hospital. The Foundation completed a capital campaign to raise money for the current building project at the Hospital. The Foundation is also the conduit for the funds from the annual Hospice fund drive.

## THE HOSPITAL'S CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating revenues and nonoperating revenues and expenses as discussed earlier.

## BUDGETARY HIGHLIGHTS

The official budget of the Hospital for the year ended June 30, 2010 was prepared on an accrual basis. Actual expenditures were lower than the budget by \$1,999,881 due to lower volumes in some areas and the delay in implementing a new service line in 2010.

Pocahontas Community Hospital  
Management's Discussion and Analysis - Continued

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets:

At the end of 2009, the Hospital had \$4,824,022 invested in capital assets, net of accumulated depreciation and related debt. In 2010, the Hospital purchased new equipment costing \$ 532,963. The Hospital had \$4,799,889 invested in capital assets net of accumulated depreciation and related debt at the end of 2010.

### Debt:

At year-end, the Hospital had \$1,198,452 in debt outstanding. The original debt included a \$2,000,000 promissory note signed by the City of Pocahontas on behalf of the Hospital for financing the current building project, and a \$360,000 non-interest bearing note with the City of Pocahontas for distribution of the proceeds of a city awarded USDA Grant. The proceeds of this note were used for the purchase of several pieces of equipment.

## OTHER ECONOMIC FACTORS

The continued declining employment in the county related to the economic downturn has resulted in residents losing jobs or having a reduction in paid hours and as a result losing insurance coverage. This situation has resulted in a 115% increase in charity care provided by the hospital and an increase in 31.9% increase in bad debts in 2010, as patients are no longer able pay their premiums or medical bills and cannot go without medical care. Many of these patients, because they are still employed or working aged may not qualify for government assistance, but do qualify for some hospital sponsored financial assistance because of the low income levels.

## CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer, Pocahontas Community Hospital, 606 NW 7<sup>th</sup> St., Pocahontas, Iowa 50574.

POCAHONTAS COMMUNITY HOSPITAL  
Consolidated Balance Sheets  
June 30,

ASSETS

	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash	\$ 1,500,591	\$ 728,994
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$440,000 in 2010, \$390,000 in 2009)	1,172,387	897,736
Other receivables	23,318	11,270
Inventory	109,034	102,639
Prepaid expense	84,506	89,673
Internally designated assets	<u>586,663</u>	<u>333,821</u>
Total current assets	3,476,499	2,164,133
Designated and Restricted Assets:		
Internally designated assets	976,588	884,978
Restricted assets	<u>93,588</u>	<u>93,336</u>
	1,070,176	978,314
Less amounts required to meet current liabilities	<u>586,663</u>	<u>333,821</u>
	483,513	644,493
Capital Assets:		
Depreciable capital assets, net	6,223,541	6,343,246
Non-depreciable capital assets	<u>12,500</u>	<u>12,500</u>
	6,236,041	6,355,746
Other Assets	<u>84,395</u>	<u>92,088</u>
Total assets	<u>\$ 10,280,448</u>	<u>\$ 9,256,460</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 348,963	\$ 333,821
Accounts payable	449,798	202,229
Accrued employee compensation	216,677	185,923
Other accrued expenses	32,230	26,044
Accrued interest	4,060	5,630
Estimated third-party payor settlements	<u>660,000</u>	<u>20,000</u>
Total current liabilities	1,711,728	773,647
Long-Term Debt, less current maturities	<u>849,489</u>	<u>1,197,903</u>
Total liabilities	2,561,217	1,971,550
Net Assets:		
Invested in capital assets, net of related debt	4,799,889	4,824,022
Restricted - expendable	93,588	93,336
Unrestricted	<u>2,825,754</u>	<u>2,367,552</u>
	<u>7,719,231</u>	<u>7,284,910</u>
 Total liabilities and net assets	 <u>\$ 10,280,448</u>	 <u>\$ 9,256,460</u>

POCAHONTAS COMMUNITY HOSPITAL  
Consolidated Statements of Revenues, Expenses and Changes in Net Assets  
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Revenue:		
Net patient service revenue	\$ 7,779,141	\$ 7,194,537
Other revenue	<u>95,066</u>	<u>84,079</u>
Total revenue	7,874,207	7,278,616
Expenses:		
Nursing service	2,130,552	1,988,971
Other professional service	2,632,910	2,513,170
General service	623,384	597,687
Fiscal and administrative service	1,629,939	1,462,316
Provision for depreciation	<u>613,517</u>	<u>630,306</u>
Total expenses	<u>7,630,302</u>	<u>7,192,450</u>
Operating Income	243,905	86,166
Non-Operating Revenues (Expenses):		
Noncapital gifts, grants and bequests	142,394	163,598
Investment income	23,390	31,371
Ambulance subsidy	6,745	6,274
Interest expense	( 71,316)	( 87,687)
Clinic operations, net	( 429)	( 300)
Loss on disposal of equipment	<u>( 5,200)</u>	<u>--</u>
Non-operating revenues, net	<u>95,584</u>	<u>113,256</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	339,489	199,422
Capital Grants and Contributions	<u>94,832</u>	<u>14,456</u>
Increase in Net Assets	434,321	213,878
Net Assets Beginning of Year	<u>7,284,910</u>	<u>7,071,032</u>
Net Assets End of Year	<u>\$ 7,719,231</u>	<u>\$ 7,284,910</u>

The accompanying notes are an integral part of these statements.

POCAHONTAS COMMUNITY HOSPITAL  
Consolidated Statements of Cash Flows  
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 8,132,442	\$ 7,066,747
Cash paid to suppliers	( 4,308,891)	( 4,030,295)
Cash paid to employees	( 2,655,070)	( 2,481,402)
Other operating revenue	<u>95,066</u>	<u>84,079</u>
Net cash provided by operating activities	1,263,547	639,129
Cash flows from non-capital financing activities:		
Gifts, grants and bequests	127,544	146,048
Ambulance subsidy	<u>6,745</u>	<u>6,274</u>
Net cash provided by non-capital financing activities	134,289	152,322
Cash flows from capital and related financing activities:		
Capital expenditures	( 262,397)	( 153,182)
Proceeds from disposal of assets	1,085	--
Capital grants and contributions	94,832	16,203
Principal paid on long-term debt	( 333,272)	( 320,255)
Interest paid	<u>( 58,036)</u>	<u>( 70,719)</u>
Net cash used in capital and related financing activities	( 557,788)	( 527,953)
Cash flows from investing activities:		
Change in designated and restricted assets	( 55,018)	( 14,042)
Investment income	23,390	31,371
Clinic operations, net	( 429)	( 300)
Other asset changes	<u>450</u>	<u>( 105,977)</u>
Net cash used in investing activities	( 31,607)	( 88,948)
Net increase in cash and cash equivalents	808,441	174,550
Cash and cash equivalents beginning of year	<u>876,792</u>	<u>702,242</u>
Cash and cash equivalents end of year	<u>\$ 1,685,233</u>	<u>\$ 876,792</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 1,500,591	\$ 728,994
Cash and cash equivalents in designated and restricted assets	<u>184,642</u>	<u>147,798</u>
Total cash and cash equivalents	<u>\$ 1,685,233</u>	<u>\$ 876,792</u>

(continued next page)

POCAHONTAS COMMUNITY HOSPITAL  
Consolidated Statements of Cash Flows - Continued  
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 243,905	\$ 86,166
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	613,517	630,306
Amortization	32,243	13,889
Change in assets and liabilities		
Accounts receivable	( 286,699)	( 47,790)
Inventory	( 6,395)	( 3,891)
Prepaid expense	5,167	( 17,263)
Accounts payable - trade	( 15,131)	12,445
Accrued employee compensation	30,754	19,823
Other accrued expenses	6,186	25,444
Estimated third-party payor settlements	640,000	( 80,000)
Total adjustments	<u>1,019,642</u>	<u>552,963</u>
Net cash provided by operating activities	<u>\$ 1,263,547</u>	<u>\$ 639,129</u>

The Hospital also incurred the following non-cash transactions in addition to the transactions reflected in the reconciliation of operating income to net cash provided by operating activities:

	<u>2010</u>	<u>2009</u>
Interest imputed on loan and recorded as a gift	<u>\$ 14,850</u>	<u>\$ 17,550</u>
Net book value of asset traded	<u>\$ 32,866</u>	<u>\$ 10,575</u>

The accompanying notes are an integral part of these statements.

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Consolidated Financial Statements  
June 30, 2010 and 2009

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES

1. Reporting Entity

The organization includes a hospital foundation and a 25 bed critical access acute care municipal hospital with related healthcare ancillary and outpatient services. Pocahontas Community Hospital (Hospital) is organized under Chapter 392 of the Code of Iowa; accordingly, it is a political subdivision of the State of Iowa and is therefore exempt from federal and state income taxes. It is governed by a five member board of trustees, elected for four year terms. In addition, the City Treasurer is considered to be a Co-Treasurer of the Board. The Hospital, a component unit of the City of Pocahontas, has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital.

The Pocahontas Community Healthcare Foundation (Foundation) has been identified as a component unit of the Hospital, and accordingly, the assets, liabilities, and activities of the Foundation have been consolidated with those of the Hospital in their financial statements. The Foundation is a not-for-profit corporation exempt from income tax under Section 501 of the Internal Revenue Code. It was established to provide financial support to the Hospital.

2. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on GASB Statement No. 20, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the FASB, including those issued after November 30, 1989 that do not conflict with or contradict GASB pronouncements.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less including designated and restricted assets.



POCAHONTAS COMMUNITY HOSPITAL  
Notes to Consolidated Financial Statements  
June 30, 2010 and 2009

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of four years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and five to twenty years for equipment).

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital did not capitalize any interest costs in 2010 or 2009.

9. Compensated Absences

Hospital employees earn vacation days at varying rates depending on years of service. Vacation time accumulates to a maximum of 200 hours. Any excess over 200 hours accumulated by the employee's anniversary date is lost. The computed amount of vacation benefits earned by year end is recorded as part of accrued employee compensation. Employees also earn sick leave benefits based on varying rates depending on years of service. Employees may accumulate sick leave up to a specified maximum. Employees are not paid for accumulated sick leave if employment is ended.

10. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Consolidated Financial Statements  
June 30, 2010 and 2009

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

13. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees based on the facts regarding each specific situation.

14. Net Assets

Net assets of the Hospital are classified in four components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. *Restricted nonexpendable net assets* equal the principal portion of permanent endowments. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted*.

15. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Consolidated Financial Statements  
June 30, 2010 and 2009

**NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient acute services, inpatient nonacute services, and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2009. The Medicaid cost reports have been finalized through June 30, 2007. However, finalized cost reports are subject to re-opening by the intermediary within three years after the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates and discounts from established charges.

**NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS**

Restricted expendable net assets are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Capital items	\$ 3,478	\$ 6,146
Hospice services	15,746	27,137
Cardiac rehab	1,030	1,030
Scholarships	3,000	1,000
Physician recruitment	13,056	--
Foundation discretionary	<u>57,278</u>	<u>58,023</u>
Total restricted expendable net assets	<u>\$ 93,588</u>	<u>\$ 93,336</u>

Restricted nonexpendable net assets represent the principal amounts of permanent endowments, restricted to investment in perpetuity. The Hospital had no permanent endowments as of June 30, 2010 and 2009.

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Consolidated Financial Statements  
June 30, 2010 and 2009

NOTE D - DONOR RESTRICTIONS RELEASED

Restricted assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors:

	<u>2010</u>	<u>2009</u>
Purpose of Restrictions Accomplished:		
Capital items	\$ 23,829	\$ 7,400
Hospice costs	40,847	22,767
Cardiac rehabilitation	--	1,481
Ambulance	5,708	1,210
Other Foundation projects	<u>31,785</u>	<u>81,864</u>
	<u>\$ 102,169</u>	<u>\$ 114,722</u>

NOTE E - DESIGNATED NET ASSETS

Of the \$2,825,754 (\$2,367,552 as of June 30, 2009) of unrestricted net assets as of June 30, 2010, \$976,588 (\$884,978 for 2009) has been designated by the Hospital's Board of Trustees for capital acquisitions, debt principal payments, and endowments. These assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes.

NOTE F - DEPOSITS AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Consolidated Financial Statements  
June 30, 2010 and 2009

NOTE F - DEPOSITS AND INVESTMENTS - Continued

The composition of designated and restricted assets is as follows:

	<u>2010</u>	<u>2009</u>
Internally Designated Assets:		
Capital Improvements and Debt Payments:		
Cash and cash equivalents	\$ 136,804	\$ 54,462
Certificates of deposit	437,433	426,880
Interest receivable	2,351	3,636
Hospital designated endowments:		
Certificates of deposit	<u>400,000</u>	<u>400,000</u>
	<u>\$ 976,588</u>	<u>\$ 884,978</u>
Restricted Assets:		
Cash	\$ 47,838	\$ 93,336
Certificate of deposit	<u>45,750</u>	<u>---</u>
	<u>\$ 93,588</u>	<u>\$ 93,336</u>

The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

NOTE G - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2010 and 2009, was as follows:

	<u>2010</u>	<u>2009</u>
Receivable From:		
Patients	\$ 441,459	\$ 418,914
Medicare	680,070	496,896
Medicaid	97,039	74,887
Blue Cross	245,163	150,766
Workers Compensation	22,868	21,156
Others	<u>125,788</u>	<u>125,117</u>
	1,612,387	1,287,736
Less allowances for doubtful accounts and contractual adjustments	<u>440,000</u>	<u>390,000</u>
	<u>\$ 1,172,387</u>	<u>\$ 897,736</u>

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Consolidated Financial Statements  
June 30, 2010 and 2009

NOTE H - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2010 and 2009 were as follows:

<u>Cost</u>	<u>Balance 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2010</u>
Land Improvements	\$ 154,540	\$ --	\$ --	\$ 154,540
Buildings	8,026,327	15,200	--	8,041,527
Fixed Equipment	626,476	28,795	--	655,271
Major Movable Equipment	<u>2,614,489</u>	<u>488,968</u>	<u>215,507</u>	<u>2,887,950</u>
	11,421,832	532,963	215,507	11,739,288
<u>Depreciation</u>				
Land Improvements	124,947	5,852	--	130,799
Buildings	2,621,720	346,733	--	2,968,453
Fixed Equipment	312,891	39,481	--	352,372
Major Movable Equipment	<u>2,019,028</u>	<u>221,451</u>	<u>176,356</u>	<u>2,064,123</u>
Total Depreciation	<u>5,078,586</u>	<u>613,517</u>	<u>176,356</u>	<u>5,515,747</u>
Depreciable Capital Assets, Net	<u>\$ 6,343,246</u>	<u>\$ ( 80,554)</u>	<u>\$ 39,151</u>	<u>\$ 6,223,541</u>
Land	<u>\$ 12,500</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 12,500</u>
<u>Cost</u>	<u>Balance 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2009</u>
Land Improvements	\$ 138,960	\$ 15,580	\$ --	\$ 154,540
Buildings	8,026,327	--	--	8,026,327
Fixed Equipment	626,476	--	--	626,476
Major Movable Equipment	<u>2,659,842</u>	<u>137,159</u>	<u>182,512</u>	<u>2,614,489</u>
	11,451,605	152,739	182,512	11,421,832
<u>Depreciation</u>				
Land Improvements	118,013	6,934	--	124,947
Buildings	2,275,226	346,494	--	2,621,720
Fixed Equipment	274,093	38,798	--	312,891
Major Movable Equipment	<u>1,952,885</u>	<u>238,080</u>	<u>171,937</u>	<u>2,019,028</u>
Total Depreciation	<u>4,620,217</u>	<u>630,306</u>	<u>171,937</u>	<u>5,078,586</u>
Depreciable Capital Assets, Net	<u>\$ 6,831,388</u>	<u>\$ ( 477,567)</u>	<u>\$ 10,575</u>	<u>\$ 6,343,246</u>
Land	<u>\$ 12,500</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 12,500</u>

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Consolidated Financial Statements  
June 30, 2010 and 2009

NOTE I - NON-CURRENT LIABILITIES

A schedule of non-current liabilities for the years ended June 30, 2010 and 2009 follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2010</u>	<u>Current Portion</u>
Note A	\$1,223,153	\$ --	\$ 281,844	\$ 941,309	\$ 297,534
Note B	<u>308,571</u>	<u>--</u>	<u>51,428</u>	<u>257,143</u>	<u>51,429</u>
	<u>\$1,531,724</u>	<u>\$ --</u>	<u>\$ 333,272</u>	<u>\$1,198,452</u>	<u>\$ 348,963</u>
	<u>Balance 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2009</u>	<u>Current Portion</u>
Note A	\$1,491,979	\$ --	\$ 268,826	\$1,223,153	\$ 282,392
Note B	<u>360,000</u>	<u>--</u>	<u>51,429</u>	<u>308,571</u>	<u>51,429</u>
	<u>\$1,851,979</u>	<u>\$ --</u>	<u>\$ 320,255</u>	<u>\$1,531,724</u>	<u>\$ 333,821</u>

Note A - The note is in the name of the City of Pocahontas through Citizens State Bank, Pocahontas Office. However, the Hospital is responsible for all loan principal and interest payments, therefore, the note payable has been recorded as a liability of the Hospital. Combined monthly principal and interest payments are \$28,323 and the interest rate is 5.25%. The final payment is due in June, 2013. The Hospital has pledged all of its assets and future revenues (net of certain expenses) to repay the note.

Note B - The City of Pocahontas obtained a \$360,000 Rural Economic Development Grant through the United States Department of Agriculture. The proceeds were then loaned to the Hospital to cover the cost of specified equipment items. The note with the City is non-interest bearing, however, interest has been imputed at a rate of 5.25%, and recorded as a donation on the Hospital's financial statements. Monthly principal payments of \$4,286 are being made to the City through July, 2015. The note is collateralized by the equipment purchased (with a net book value of \$363,851).

The annual debt service on the notes is expected to require less than 37% of cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$391,000 and \$1,056,000 respectively.

Scheduled principal and interest payments on long-term debt are as follows:

<u>Year Ending June 30,</u>	<u>Long-Term Debt</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 348,963	\$ 42,345	\$ 391,308
2012	364,900	26,408	391,308
2013	381,823	9,485	391,308
2014	51,429	--	51,429
2015	<u>51,337</u>	<u>--</u>	<u>51,337</u>
	<u>\$ 1,198,452</u>	<u>\$ 78,238</u>	<u>\$ 1,276,690</u>

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Consolidated Financial Statements  
June 30, 2010 and 2009

NOTE J - PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Regular plan members are required to contribute 4.30% (4.50% July 1, 2010) of their annual salary and the Hospital is required to contribute 6.65% (6.95% July 1, 2010) of annual covered payroll. Contribution rates are slightly higher when employees are performing emergency response services. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008, were approximately \$181,800, \$157,400, and \$143,800, respectively, equal to the required contributions for each year.

NOTE K - AFFILIATED ORGANIZATION

The Hospital has an operating agreement with Trinity Health Systems (Trinity). Under the agreement, the Hospital's Chief Executive Officer is an employee of Trinity and the Hospital reimburses Trinity for the cost of the Chief Executive Officer's salary and benefits. The Hospital also pays Trinity a monthly fee. Under the agreement, Trinity exercises joint authority over the Hospital's operations with the Hospital's board. Trinity consults and works with the Hospital's board in formulating management strategies and recommendations regarding operations. Below is a list of transactions between the Hospital and this affiliate for the years ended June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Fees to Trinity for personnel and services	<u>\$ 220,641</u>	<u>\$ 175,630</u>

NOTE L - COMMITMENTS AND CONTINGENCIES

Rental Obligation

The Hospital has agreed to rent building space from the City of Pocahontas for approximately \$15,000 per year through 2014. This rented space is currently used for specialty clinic reception and for the home health/hospice offices.

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Pocahontas Community Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.



POCAHONTAS COMMUNITY HOSPITAL  
Notes to Consolidated Financial Statements  
June 30, 2010 and 2009

NOTE L - COMMITMENTS AND CONTINGENCIES - Continued

Other Post Employment Benefits (OPEB)

The Hospital implemented GASB Statement No. 45 Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions during the year ended June 30, 2009.

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Hospital employees, and the retiree must pay a health insurance premium equal to that charged for current employees.

Potential for Liability: A review of the Hospital's current and potential future exposure to this requirement resulted in the conclusion that no material liability exists. Therefore no liability has been recorded.

Subsequent Events

The Hospital has evaluated all subsequent events through August 13, 2010, the date the financial statements were available to be issued.

\* \* \*

## REQUIRED SUPPLEMENTARY INFORMATION

POCAHONTAS COMMUNITY HOSPITAL  
Budgetary Comparison Schedule  
Year Ended June 30, 2010

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget which is filed with the City Clerk to be included in the official city budget. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

The following is a comparison of reported amounts to the accrual basis budget for the year ended June 30, 2010 (Hospital only, excluding Foundation).

	<u>Total Per Hospital Statements</u>	<u>Budget</u>	<u>Amount Under Budget</u>
Expenses	\$ <u>7,650,119</u>	\$ <u>9,650,000</u>	\$ <u>1,999,881</u>

\* \* \*

See Independent Auditor's Report.

## SUPPLEMENTARY INFORMATION

POCAHONTAS COMMUNITY HOSPITAL  
Consolidating Balance Sheets  
June 30, 2010

ASSETS

	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Current Assets:			
Cash	\$ 1,500,591	\$ --	\$ 1,500,591
Patient receivables, net	1,172,387	--	1,172,387
Other receivables	23,318	--	23,318
Inventory	109,034	--	109,034
Prepaid expense	84,506	--	84,506
Internally designated assets	<u>586,663</u>	<u>--</u>	<u>586,663</u>
Total current assets	3,476,499	--	3,476,499
Designated and Restricted Assets:			
Internally designated assets	976,588	--	976,588
Restricted assets	--	93,588	93,588
Current portion	<u>( 586,663)</u>	<u>--</u>	<u>( 586,663)</u>
	389,925	93,588	483,513
Depreciable Capital Assets, Net	6,223,541	--	6,223,541
Non-depreciable Capital Assets	12,500	--	12,500
Other Assets	<u>84,395</u>	<u>--</u>	<u>84,395</u>
Total assets	<u>\$ 10,186,860</u>	<u>\$ 93,588</u>	<u>\$ 10,280,448</u>

LIABILITIES AND NET ASSETS

Current Liabilities:			
Current maturities of long-term debt	\$ 348,963	\$ --	\$ 348,963
Accounts payable	449,798	--	449,798
Accrued employee compensation	216,677	--	216,677
Other accrued expenses	32,230	--	32,230
Accrued interest	4,060	--	4,060
Estimated third-party payor settlement	<u>660,000</u>	<u>--</u>	<u>660,000</u>
Total current liabilities	1,711,728	--	1,711,728
Long-Term Debt, less current maturities	849,489	--	849,489
Net Assets:			
Invested in capital assets, net	4,799,889	--	4,799,889
Restricted - expendable	--	93,588	93,588
Unrestricted	<u>2,825,754</u>	<u>--</u>	<u>2,825,754</u>
Total liabilities and net assets	<u>\$ 10,186,860</u>	<u>\$ 93,588</u>	<u>\$ 10,280,448</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL  
Consolidating Balance Sheets  
June 30, 2009

ASSETS

	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Current Assets:			
Cash	\$ 728,994	\$ --	\$ 728,994
Patient receivables, net	897,736	--	897,736
Other receivables	11,270	--	11,270
Inventory	102,639	--	102,639
Prepaid expense	89,673	--	89,673
Internally designated assets	333,821	--	333,821
Total current assets	2,164,133	--	2,164,133
Designated and Restricted Assets:			
Internally designated assets	884,978	--	884,978
Restricted assets	--	93,336	93,336
Current portion	( 333,821)	--	( 333,821)
	551,157	93,336	644,493
Depreciable Capital Assets, Net	6,343,246	--	6,343,246
Non-depreciable Capital Assets	12,500	--	12,500
Other Assets	92,088	--	92,088
Total assets	<u>\$ 9,163,124</u>	<u>\$ 93,336</u>	<u>\$ 9,256,460</u>

LIABILITIES AND NET ASSETS

Current Liabilities:			
Current maturities of long-term debt	\$ 333,821	\$ --	\$ 333,821
Accounts payable	202,229	--	202,229
Accrued employee compensation	185,923	--	185,923
Other accrued expenses	26,044	--	26,044
Accrued interest	5,630	--	5,630
Estimated third-party payor settlement	20,000	--	20,000
Total current liabilities	773,647	--	773,647
Long-Term Debt, less current maturities	1,197,903	--	1,197,903
Net Assets:			
Invested in capital assets, net	4,824,022	--	4,824,022
Restricted - expendable	--	93,336	93,336
Unrestricted	2,367,552	--	2,367,552
Total liabilities and net assets	<u>\$ 9,163,124</u>	<u>\$ 93,336</u>	<u>\$ 9,256,460</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL  
Consolidating Statements of Revenues, Expenses and Changes in Net Assets  
Year ended June 30, 2010

	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Revenue:				
Net patient service revenue	\$ 7,779,141	\$ --	\$ --	\$ 7,779,141
Other revenue	<u>95,066</u>	<u>--</u>	<u>--</u>	<u>95,066</u>
Total revenue	7,874,207	--	--	7,874,207
Expenses:				
Nursing service	2,130,552	--	--	2,130,552
Other professional service	2,632,910	--	--	2,632,910
General service	623,384	--	--	623,384
Fiscal and administrative service	1,578,440	102,169	( 50,670)	1,629,939
Provision for depreciation	<u>613,517</u>	<u>--</u>	<u>--</u>	<u>613,517</u>
Total expenses	<u>7,578,803</u>	<u>102,169</u>	<u>( 50,670)</u>	<u>7,630,302</u>
Operating Income (Loss)	295,404	( 102,169)	50,670	243,905
Non-Operating Revenues (Expenses):				
Noncapital gifts, grants, and bequests	87,014	82,221	( 26,841)	142,394
Investment income	22,122	1,268	--	23,390
Ambulance subsidy	6,745	--	--	6,745
Interest expense	( 71,316)	--	--	( 71,316)
Clinic operations, net	( 429)	--	--	( 429)
Loss on disposal of equipment	<u>( 5,200)</u>	<u>--</u>	<u>--</u>	<u>( 5,200)</u>
Non-operating revenues, net	<u>38,936</u>	<u>83,489</u>	<u>( 26,841)</u>	<u>95,584</u>
Excess of Revenues Over (Under) Expenses Before Capital Grants and Contributions	334,340	( 18,680)	23,829	339,489
Capital Grants and Contributions	<u>99,729</u>	<u>18,932</u>	<u>( 23,829)</u>	<u>94,832</u>
Increase in Net Assets	434,069	252	--	434,321
Net Assets Beginning of Year	<u>7,191,574</u>	<u>93,336</u>	<u>--</u>	<u>7,284,910</u>
Net Assets End of Year	<u>\$ 7,625,643</u>	<u>\$ 93,588</u>	<u>\$ --</u>	<u>\$ 7,719,231</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL  
Consolidating Statements of Revenues, Expenses and Changes in Net Assets  
Year ended June 30, 2009

	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Revenue:				
Net patient service revenue	\$ 7,194,537	\$ --	\$ --	\$ 7,194,537
Other revenue	<u>84,079</u>	<u>--</u>	<u>--</u>	<u>84,079</u>
Total revenue	7,278,616	--	--	7,278,616
Expenses:				
Nursing service	1,988,971	--	--	1,988,971
Other professional service	2,513,170	--	--	2,513,170
General service	597,687	--	--	597,687
Fiscal and administrative service	1,410,868	114,722	( 63,274)	1,462,316
Provision for depreciation	<u>630,306</u>	<u>--</u>	<u>--</u>	<u>630,306</u>
Total expenses	<u>7,141,002</u>	<u>114,722</u>	<u>( 63,274)</u>	<u>7,192,450</u>
Operating Income (Loss)	137,614	( 114,722)	63,274	86,166
Non-Operating Revenues (Expenses):				
Noncapital gifts, grants, and bequests	108,994	96,022	( 41,418)	163,598
Investment income	30,067	1,304	--	31,371
Ambulance subsidy	6,274	--	--	6,274
Interest expense	( 87,687)	--	--	( 87,687)
Clinic operations, net	( 300)	--	--	( 300)
Loss on disposal of equipment	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Non-operating revenues, net	<u>57,348</u>	<u>97,326</u>	<u>( 41,418)</u>	<u>113,256</u>
Excess of Revenues Over (Under) Expenses Before Capital Grants and Contributions	194,962	( 17,396)	21,856	199,422
Capital Grants and Contributions	<u>21,856</u>	<u>14,456</u>	<u>( 21,856)</u>	<u>14,456</u>
Increase (Decrease) in Net Assets	216,818	( 2,940)	--	213,878
Net Assets Beginning of Year	<u>6,974,756</u>	<u>96,276</u>	<u>--</u>	<u>7,071,032</u>
Net Assets End of Year	<u>\$ 7,191,574</u>	<u>\$ 93,336</u>	<u>\$ --</u>	<u>\$ 7,284,910</u>

See Independent Auditor's Report.



POCAHONTAS COMMUNITY HOSPITAL  
Patient Receivables  
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2010</u>		<u>2009</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 952,276	59.1%	\$ 808,795	62.8%
31 - 90	369,540	22.9	210,560	16.4
91 - 180	151,356	9.4	136,556	10.6
181 - 360	127,151	7.9	101,978	7.9
361 and over	12,064	0.7	29,847	2.3
	<u>1,612,387</u>	<u>100.0%</u>	<u>1,287,736</u>	<u>100.0%</u>
Allowance for doubtful accounts	140,000		130,000	
Allowance for contractual adjustments	<u>300,000</u>		<u>260,000</u>	
	<u>\$ 1,172,387</u>		<u>\$ 897,736</u>	

Allowance for Doubtful Accounts:

	<u>Year ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
Balance, beginning	\$ 130,000	\$ 110,000
Provision for bad debts	254,453	192,959
Recoveries of accounts previously written off	<u>214,882</u>	<u>228,394</u>
	<u>599,335</u>	<u>531,353</u>
Accounts written off	<u>459,335</u>	<u>401,353</u>
Balance, ending	<u>\$ 140,000</u>	<u>\$ 130,000</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL  
Inventory/Prepaid Expense  
June 30,

	<u>2010</u>	<u>2009</u>
<u>Inventory</u>		
Medical and surgical	\$ 29,801	\$ 22,351
Pharmacy	53,431	50,385
Laboratory and radiology	<u>25,802</u>	<u>29,903</u>
	<u>\$ 109,034</u>	<u>\$ 102,639</u>
 <u>Prepaid Expense</u>		
Insurance	\$ 34,297	\$ 39,142
Service contracts	<u>50,209</u>	<u>50,531</u>
	<u>\$ 84,506</u>	<u>\$ 89,673</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL  
Patient Service Revenue  
Year ended June 30,

	2010		
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Swing Bed</u>
Daily Patient Services:			
Medical and surgical	\$ 357,781	\$ --	\$ --
Swing bed	--	--	221,525
	<u>357,781</u>	<u>--</u>	<u>221,525</u>
Other Nursing Services:			
Operating and recovery rooms	13,260	872,090	--
Emergency service	922	380,761	--
Central services and supply	121,443	333,658	56,560
Intravenous therapy	19,613	25,963	6,625
Observation	--	107,420	--
	<u>155,238</u>	<u>1,719,892</u>	<u>63,185</u>
Other Professional Services:			
Emergency room physician	--	387,702	--
Anesthesiology	2,880	184,425	--
Laboratory	165,200	2,285,581	53,036
Radiology	73,729	1,778,622	14,481
Blood administration	15,933	55,265	6,387
Pharmacy	179,421	474,622	103,136
Chemotherapy	960	32,770	--
Electrocardiology	12,197	232,567	2,826
Physical therapy	11,004	287,275	50,438
Speech therapy	346	1,427	913
Occupational therapy	2,575	45,699	29,104
Cardiac rehabilitation	--	91,790	--
Ambulance services	3,220	330,303	--
Industrial Health	--	67,111	--
Home Health Care	--	140,874	--
Hospice	18,240	329,838	--
Clinic services	--	27,913	--
	<u>485,705</u>	<u>6,753,784</u>	<u>260,321</u>
	<u>\$ 998,724</u>	<u>\$ 8,473,676</u>	<u>\$ 545,031</u>

See Independent Auditor's Report.

<u>2010</u>	<u>2009</u>
<u>Total</u>	<u>Total</u>
\$ 357,781	\$ 313,524
<u>221,525</u>	<u>203,186</u>
579,306	516,710
885,350	864,945
381,683	374,820
511,661	467,146
52,201	68,256
<u>107,420</u>	<u>76,834</u>
1,938,315	1,852,001
387,702	376,995
187,305	157,350
2,503,817	2,118,856
1,866,832	1,500,521
77,585	68,285
757,179	620,180
33,730	96,728
247,590	208,470
348,717	338,341
2,686	13,344
77,378	111,625
91,790	109,464
333,523	259,575
67,111	58,237
140,874	126,648
348,078	495,422
<u>27,913</u>	<u>35,510</u>
<u>7,499,810</u>	<u>6,695,551</u>
<u>\$ 10,017,431</u>	<u>\$ 9,064,262</u>

POCAHONTAS COMMUNITY HOSPITAL  
Revenue and Related Adjustments  
Year ended June 30,

	<u>2010</u>	<u>2009</u>
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 10,017,431	\$ 9,064,262
Contractual adjustments	( 1,930,385)	( 1,647,709)
Provision for bad debts	( 254,453)	( 192,959)
Charity care	( 43,759)	( 20,264)
Employee discounts	( 9,693)	( 8,793)
	<u>\$ 7,779,141</u>	<u>\$ 7,194,537</u>
 <u>Other Revenue</u>		
Meals sold	\$ 15,989	\$ 14,904
Histories	2,274	1,783
Lifeline	17,809	15,317
Ambulance support	18,000	16,000
Rent income	12,675	11,000
Miscellaneous	<u>28,319</u>	<u>25,075</u>
	<u>\$ 95,066</u>	<u>\$ 84,079</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL  
Schedule of Expenses  
Year ended June 30,

	2010		
	Salaries and Wages	Employee Benefits	Supplies and Other Expenses
<u>Daily Patient Services</u>			
Nursing administration	\$ 28,475	\$ --	\$ 286
Medical and surgical	705,839	--	121,268
	<u>734,314</u>	<u>--</u>	<u>121,554</u>
<u>Other Nursing Services</u>			
Operating and recovery rooms	140,208	--	68,764
Central services and supply	29,415	--	136,128
Emergency service	117,623	--	19,143
	<u>287,246</u>	<u>--</u>	<u>224,035</u>
<u>Other Professional Services</u>			
Laboratory	232,712	--	250,539
Blood administration	--	--	27,465
Electrocardiology	--	--	--
Radiology	196,304	--	352,077
Cardiac rehabilitation	97,028	--	3,075
Pharmacy	73	--	243,097
Chemotherapy	7,576	--	9,376
Anesthesiology	--	--	342
Ambulance services	127,706	--	23,685
Physical therapy	25,242	--	3,609
Speech therapy	--	--	--
Occupational therapy	--	--	755
Industrial Health	43,816	--	2,836
Home Health Care	173,029	--	42,915
Medical records	81,457	--	34,474
Hospice	109,959	--	87,462
	<u>1,094,902</u>	<u>--</u>	<u>1,081,707</u>
<u>General Services</u>			
Dietary	120,615	--	62,950
Plant operations	124,791	--	188,646
Housekeeping	74,542	--	11,349
Laundry and linen	--	--	27,892
	<u>319,948</u>	<u>--</u>	<u>290,837</u>
<u>Fiscal and Administrative Services</u>	249,414	758,574	368,939
<u>Provision for Depreciation</u>	--	--	613,517
Total all departments	<u>\$ 2,685,824</u>	<u>\$ 758,574</u>	<u>\$ 2,700,589</u>

See Independent Auditor's Report.

2010					
Professional Fees	Total		2009 Total		
\$ --	\$ 28,761		\$ 73,685		
--	827,107		730,961		
--	855,868		804,646		
11,139	220,111		154,115		
--	165,543		206,743		
752,264	889,030		823,467		
763,403	1,274,684		1,184,325		
16,645	499,896		459,210		
--	27,465		22,119		
18,087	18,087		16,304		
41,858	590,239		516,099		
--	100,103		100,141		
68,048	311,218		252,839		
--	16,952		36,334		
89,025	89,367		81,979		
--	151,391		120,759		
175,518	204,369		198,365		
1,306	1,306		8,132		
45,814	46,569		67,928		
--	46,652		56,020		
--	215,944		185,956		
--	115,931		111,820		
--	197,421		279,165		
456,301	2,632,910		2,513,170		
12,599	196,164		191,799		
--	313,437		295,893		
--	85,891		89,011		
--	27,892		20,984		
12,599	623,384		597,687		
253,012	1,629,939		1,462,316		
--	613,517		630,306		
<u>\$ 1,485,315</u>	<u>\$ 7,630,302</u>		<u>\$ 7,192,450</u>		

POCAHONTAS COMMUNITY HOSPITAL  
Fiscal and Administrative Service Expenses  
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Fiscal and Administrative:		
Salaries and wages	\$ 249,414	\$ 220,669
Professional fees	253,012	202,503
Recruitment fees	37,047	43,897
Dues	27,438	17,180
Telephone	13,765	14,086
Supplies and other expense	<u>174,728</u>	<u>163,830</u>
	755,404	662,165
Employee Welfare:		
Payroll taxes	381,432	343,158
Group health insurance	336,467	304,010
Other employee benefits	<u>40,675</u>	<u>40,294</u>
	758,574	687,462
Insurance:		
Liability and property insurance	64,462	61,241
Foundation Expenditures:		
Supplies and other expense	<u>51,499</u>	<u>51,448</u>
	<u>\$ 1,629,939</u>	<u>\$ 1,462,316</u>

See Independent Auditor's Report.



POCAHONTAS COMMUNITY HOSPITAL  
Comparative Statistics  
Year ended June 30,

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Acute Care:					
Admissions	219	185	196	204	166
Discharges	219	185	203	203	167
Patient Days	659	548	644	598	535
Average Length of Stay	3.0	3.0	3.2	2.9	3.2
Average Occupied Beds	1.8	1.5	1.8	1.6	1.5
Swing Bed:					
Admissions	105	77	77	73	52
Discharges	105	77	83	67	55
SNF Days	658	543	522	528	339
ICF Days	67	162	43	76	29
Combined Average Occupied Beds	3.8	3.4	3.3	3.3	2.5
Outpatient Occasions of Service	30,296	31,572	33,651	32,302	33,287
Home Healthcare Visits	2,153	2,281	2,595	2,705	2,599

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL  
Comparative Consolidated Balance Sheets  
June 30,

	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash	\$ 1,500,591	\$ 728,994
Receivables	1,195,705	909,006
Inventory	109,034	102,639
Prepaid expense	84,506	89,673
Estimated third-party payor settlement	--	--
Internally designated assets	<u>586,663</u>	<u>333,821</u>
Total current assets	<u>3,476,499</u>	<u>2,164,133</u>
Other Assets:		
Designated and restricted assets	483,513	644,493
Capital assets, net	6,236,041	6,355,746
Other assets	<u>84,395</u>	<u>92,088</u>
	<u>6,803,949</u>	<u>7,092,327</u>
Total assets	<u>\$ 10,280,448</u>	<u>\$ 9,256,460</u>
Current Liabilities:		
Current maturities	\$ 348,963	\$ 333,821
Accounts payable	449,798	202,229
Accrued expenses	248,907	211,967
Accrued interest	4,060	5,630
Estimated third party payor settlements	<u>660,000</u>	<u>20,000</u>
Total current liabilities	<u>1,711,728</u>	<u>773,647</u>
Long-Term Debt, Net	<u>849,489</u>	<u>1,197,903</u>
Total liabilities	<u>2,561,217</u>	<u>1,971,550</u>
Net Assets	<u>7,719,231</u>	<u>7,284,910</u>
Total liabilities and net assets	<u>\$ 10,280,448</u>	<u>\$ 9,256,460</u>

See Independent Auditor's Report.

<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 598,207	\$ 706,258	\$ 245,254
861,216	819,531	693,174
98,748	101,986	95,823
72,410	81,215	67,791
--	--	40,000
<u>330,274</u>	<u>258,070</u>	<u>352,273</u>
1,960,855	1,967,060	1,494,315
591,982	336,734	255,599
6,843,888	7,060,697	7,696,855
--	--	--
<u>7,435,870</u>	<u>7,397,431</u>	<u>7,952,454</u>
<u>\$ 9,396,725</u>	<u>\$ 9,364,491</u>	<u>\$ 9,446,769</u>
\$ 319,256	\$ 258,070	\$ 249,949
200,802	298,668	325,912
166,700	180,281	161,558
6,212	6,832	4,164
<u>100,000</u>	<u>100,000</u>	<u>--</u>
792,970	843,851	741,583
<u>1,532,723</u>	<u>1,491,981</u>	<u>1,750,051</u>
2,325,693	2,335,832	2,491,634
<u>7,071,032</u>	<u>7,028,659</u>	<u>6,955,135</u>
<u>\$ 9,396,725</u>	<u>\$ 9,364,491</u>	<u>\$ 9,446,769</u>

POCAHONTAS COMMUNITY HOSPITAL  
Comparative Consolidated Statements of Revenues and Expenses  
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Patient Service Revenue	\$ 10,017,431	\$ 9,064,262
Adjustments to Patient Service Revenue	<u>( 2,238,290)</u>	<u>( 1,869,725)</u>
Net Patient Service Revenue	7,779,141	7,194,537
Other Revenue	<u>95,066</u>	<u>84,079</u>
Total Revenue	7,874,207	7,278,616
Expenses	<u>7,630,302</u>	<u>7,192,450</u>
Operating Income (Loss)	243,905	86,166
Non-Operating Revenues, Net	<u>95,584</u>	<u>113,256</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	339,489	199,422
Capital Grants and Contributions	<u>94,832</u>	<u>14,456</u>
Increase in Net Assets	<u>\$ 434,321</u>	<u>\$ 213,878</u>

See Independent Auditor's Report.

<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 8,629,332	\$ 7,891,776	\$ 7,829,759
<u>( 2,108,004)</u>	<u>( 1,654,603)</u>	<u>( 1,832,753)</u>
6,521,328	6,237,173	5,997,006
<u>91,171</u>	<u>77,680</u>	<u>72,339</u>
6,612,499	6,314,853	6,069,345
<u>6,662,583</u>	<u>6,268,021</u>	<u>6,129,221</u>
( 50,084)	46,832	( 59,876)
<u>66,851</u>	<u>14,113</u>	<u>98,407</u>
16,767	60,945	38,531
<u>25,606</u>	<u>12,579</u>	<u>42,130</u>
<u>\$ 42,373</u>	<u>\$ 73,524</u>	<u>\$ 80,661</u>

## COMMENTS AND RECOMMENDATIONS

# Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Trustees of  
Pocahontas Community Hospital  
Pocahontas, Iowa

We have audited the consolidated financial statements of Pocahontas Community Hospital as of and for the year ended June 30, 2010, and have issued our report thereon dated August 13, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pocahontas Community Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Pocahontas Community Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees of  
Pocahontas Community Hospital

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 10-I-A to be a significant deficiency.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pocahontas Community Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the consolidated financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Pocahontas Community Hospital's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Pocahontas Community Hospital and other parties to whom the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*Groneveld, Bell, Kghun + Co. P.C.*  
Atlantic, Iowa  
August 13, 2010



POCAHONTAS COMMUNITY HOSPITAL  
Schedule of Findings  
Year ended June 30, 2010

PART I - SIGNIFICANT DEFICIENCIES

10-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

\* \* \*

POCAHONTAS COMMUNITY HOSPITAL  
Schedule of Findings - Continued  
Year ended June 30, 2010

**PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING**

10-II-A Certified Budget: As a component unit of the City of Pocahontas, the Hospital is required to annually (in February) provide a copy of its summary budget to the City, to allow its inclusion in the official City budget documents. The Hospital complied with its requirement and provided a copy of its budget to the City by February, 2010.

Recommendation: We recommend that the Hospital continue to file its summary budget with the City of Pocahontas by February and retain documentation that it has done so.

Response: We will continue to meet our obligation of filing our original budget with the City in future years.

Conclusion: Response accepted.

10-II-B Questionable Expenditures: During the audit, we noted certain expenditures approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expenditures were as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Halderwood Farms	Employee Recognition Dinner	\$ 2,434
Entertainment Group LLC	Speaker arrangement	200
David Casas	Speaker - Recognition Dinner	1,000

According to the opinion, it is possible for certain expenses to meet the test of serving a public purpose under certain circumstances, although such expenses will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation: We recommend that the Board continue to document the public purpose of expenditures for employee recognition dinners before authorization is given.

Response: The recognition dinner expenditures are considered part of the employee benefit package and the Board feels they meet the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

10-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

POCAHONTAS COMMUNITY HOSPITAL  
Schedule of Findings - Continued  
Year ended June 30, 2010

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING -  
Continued

10-II-D Business Transactions: Business transactions between the Hospital and Hospital officials and/or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Description</u>	<u>Amount</u>
Pocahontas Ford Gustave Holzmueller is the owner of the business, a City Council Member, and the husband of Bev Holzmueller, a Hospital Board member	Miscellaneous repairs	\$ <u>6,185</u>
Sale Barn Realty Rick Winegarden is the owner of Sale Barn Realty and a Hospital Board member	Trucking	\$ <u>313</u>
Record Democrat Brooks Taylor, owner of the Record Democrat, is a City Council member	Newspaper publishing	\$ <u>4,958</u>

The transactions with Sale Barn Realty do not appear to represent a conflict of interest since the total does not exceed \$2,500.

The transactions with Pocahontas Ford and the Record Democrat exceed \$2,500, however, transactions with these, the only auto dealership and newspaper in Pocahontas, are necessary for the Hospital to carry on business.

Recommendation: The Board should continue to monitor purchases from board member owned businesses and assure that conflicts of interest are limited to required transactions. Reasons for and approval of such transactions should be documented.

Response: The Board will continue to monitor and document reasons for and approval of transactions that appear to represent any conflict of interest.

Conclusion: Response accepted.

10-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

10-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

POCAHONTAS COMMUNITY HOSPITAL  
Schedule of Findings - Continued  
Year ended June 30, 2010

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING -  
Continued

10-II-G Economic Development: During the year ended June 30, 2010, the Hospital paid \$500 to the Pocahontas County Economic Development Commission. The Hospital Board has documented the public benefits received from this expenditure, however, it is disclosed here for public information.

According to Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body to evaluate the public benefits to be obtained and discusses the specific criteria to be considered in documenting public purpose.

Recommendation: The Board should continue to evaluate and document the public purpose served by these expenditures before authorizing further payments.

Response: We will continue to evaluate and document the public purpose in the future.

Conclusion: Response accepted.

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